



ANNUAL REPORT OF THE POSTMASTER GENERAL FISCAL 1978

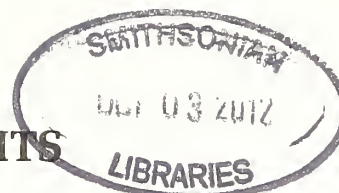
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FINANCIAL AND OPERATING HIGHLIGHTS



	FY Ended Sept. 30*		Fiscal Year Ended June 30		
	1978	1977	1976	1975	1974
Pieces of mail (millions)	96,913	92,224	89,768	89,266	90,098
% change	5.1	2.7**	0.6	—0.9	0.5

(in millions of dollars)

Operating Revenue	\$ 14,133	\$12,998	\$11,199	\$10,019	\$9,011
% change	8.7	16.1**	11.8	11.2	8.0
Govt. Appropriations	1,722	1,712	1,645	1,533	1,750
% change	0.6	4.1**	7.3	—12.4	17.8
Total Operating Expenses	16,220	15,310	13,923	12,578	11,298
% change	5.9	10.0**	10.7	11.3	13.8
Net (Loss)	(379)	(688)	(1,176)	(989)	(438)
% change	—44.8	—41.5**	18.9	125.6	3,281.4
Fixed assets (net of depreciation)	3,510	3,308	2,933	2,009	1,670
% change	6.1	11.9***	46.0	20.3	21.1
Equity (Deficiency)	(945)	(588)	(955)	190	1,147
% change	—60.9	—37.1***	—602.1	—83.4	—26.7

(in units as indicated)

U.S. population (millions) Jan. 1	217.7	216.0	214.5	212.8	210.2
% change	0.8	0.7***	0.8	1.2	0.2
Pieces of mail per capita	445	427	418	419	429
% change	4.2	2.2**	—0.2	—2.3	0.2
Operating Revenue per capita	\$ 64.91	\$60.18	\$52.21	\$47.08	\$42.87
% change	7.9	15.3**	10.9	9.8	7.8
Accrued Cost per piece of mail	16.74¢	16.60¢	15.51¢	14.09¢	12.54¢
% change	0.8	7.0**	10.1	12.4	13.3
Operating Revenue per piece of mail	14.58¢	14.09¢	12.48¢	11.22¢	10.00¢
% change	3.5	12.9**	11.2	12.2	7.5
Net (Loss) per piece of mail	(0.39¢)	(0.75¢)	(1.31¢)	(1.11¢)	(0.49¢)
% change	—48.0	—42.7**	18.0	126.5	4,800.0
Pieces of mail per total postal man year ...	146,404	138,124	131,318	128,764	127,977
% change	6.0	5.2**	2.0	0.6	—2.4
Man years	661,958	667,688	683,590	693,253	704,016
% change	—0.9	—2.3**	—1.4	—1.5	2.9
Employees	655,567	655,097	678,949	702,257	710,433
% change	0.1	—1.3***	—3.3	—1.2	1.3

Financial and Operating Details, See pages 12-27

*The U.S. Government changed its fiscal year from a July 1 through June 30 basis to an October 1 through September 30 basis effective October 1, 1976. Figures for the Transition Quarter ending September 30, 1976 can be found in the Annual Report of the Postmaster General Fiscal 1977.

**Percent of change for Fiscal Year ended September 30, 1977 is based on a comparison to Fiscal Year ended June 30, 1976.

***Percent of change for Fiscal Year ended September 30, 1977 based on a comparison to data from September 30, 1976.

THE POSTMASTER GENERAL'S LETTER TO THE BOARD OF GOVERNORS

Fiscal 1978 was a very active year for the Postal Service, characterized by change and growth.

It was a year in which the Service:

- ☐ Negotiated new three-year contracts with its four major labor unions;
- ☐ Implemented a general postage rate increase, its first in 2½ years, and sought lower rates in two major classifications;
- ☐ Greatly increased efforts to prepare for a proper role in electronic communications;
- ☐ Began streamlining postal regulations to meet the needs of customers and the competitive threat of alternate delivery companies;
- ☐ And delivered more mail than ever before while increasing gross productivity.

As a result of these activities, the Postal Service showed distinct progress toward meeting its most elusive goal, that of living within its income. The deficit for Fiscal 1978 was \$379 million. While significant, it nonetheless compared favorably with the \$688 million deficit for Fiscal 1977 and the \$1.2 billion deficit of Fiscal 1976. Further, barring a major renewal of inflationary growth, the trend of improved finances promises to continue in Fiscal 1979. As of this writing, the prospect is that the Postal

Service can finish Fiscal 1979 with a surplus of \$180 million.

These accomplishments were made despite a change in the top management of the Postal Service which occurred March 15 when I was named Postmaster General to succeed Benjamin F. Bailar, who returned to private industry.

The smooth transition enabled me to continue our progress without interruption. It was, I believe, a tribute to the framers of the Postal Reorganization Act, who recognized the importance of management continuity and provided the system for it.

Following are some of the postal highlights of Fiscal 1978.

New Labor Agreements

The negotiations with the four major postal unions representing 570,000 letter carriers, clerks, mail handlers, rural carriers and others were the largest in the nation in 1978. They began in April and lasted three months, culminating in tentative agreements reached on July 20.

However, three unions in a membership vote rejected the proposed settlement; the National Rural Letter Carriers Association ratified its agreement. To bring about a new settlement acceptable to both parties, an agreement was reached for the Director of the Federal Mediation and Conciliation Service to appoint a special mediator-arbitrator, James F. Healy. Mr. Healy's binding decision on all parties was announced two months later. During the interim, there were several illegal wildcat strike actions and threats of an illegal nationwide strike. However, the problem was averted

when disciplinary action was taken against the violators, and the nation's mail service was never interrupted. Throughout the negotiations, the vast majority of Postal Service employees stayed on the job and performed at their usually high level of concern and competence.

The new contract is, I believe, fair to both employees and to the people we serve, who must ultimately pay the bill. It provides for general increases of approximately 9½% over three years, plus cost-of-living adjustments. With the adjustments included, the contract will cost about 21% over its lifetime, assuming an inflation rate of 6.5% on an annualized basis.

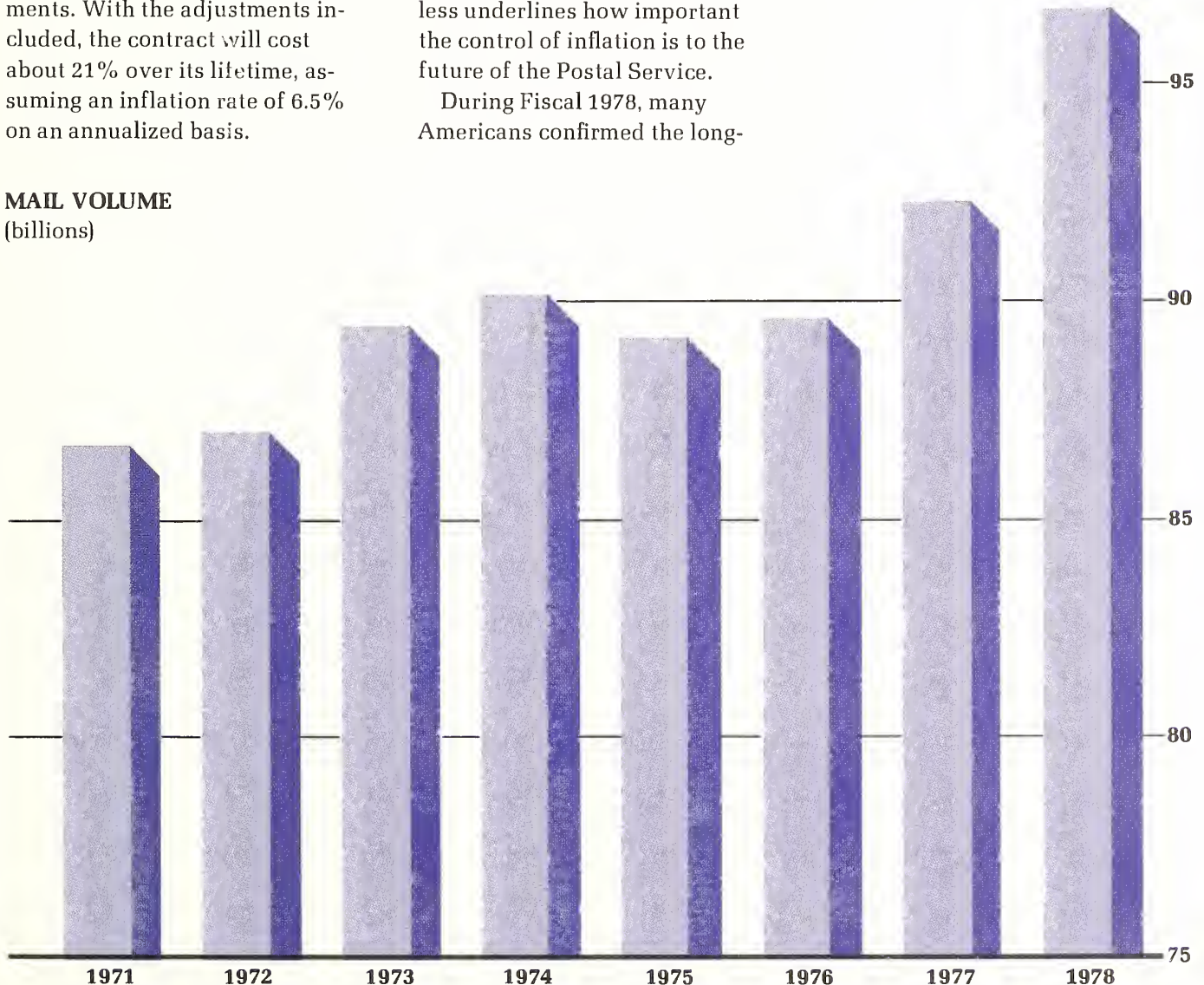
In addition, the contract modified previous prohibitions against the layoff of workers. While the contract gives regular employees on the rolls as of Sept. 15, 1978 protection against layoffs, those hired after that date must accumulate six continuous years of service to receive layoff protection. Through this provision, management thus will have more flexibility in the future to vary its work force to meet workloads.

While the contract is non-inflationary in itself, its uncapped cost-of-living provision nonetheless underlines how important the control of inflation is to the future of the Postal Service.

During Fiscal 1978, many Americans confirmed the long-

held belief that postal jobs were highly prized. When 12,000 post offices announced the opening of exams to replenish out-of-date postal hiring registers, the response of those interested in entry-level positions was overwhelming. A total of 1,131,507 applicants was tested—and a survey at 58 of the largest postal installations showed that 66.4% of the applicants already had other jobs and were willing to give them up for postal positions.

MAIL VOLUME
(billions)



Adjustments in Rates

The domestic rate and fee increases that went into effect on May 29, 1978 (raising first-class postage from 13 to 15 cents) were the first general rate increases in 2½ years, and the current goal is to duplicate or better that record. At this time, I believe we will not require a general rate increase until 1981.

In adopting the recommended decision of the independent Postal Rate Commission, the Postal Service Governors took exception to the increase in parcel post rates, which was substantially higher than what the Postal Service had sought.

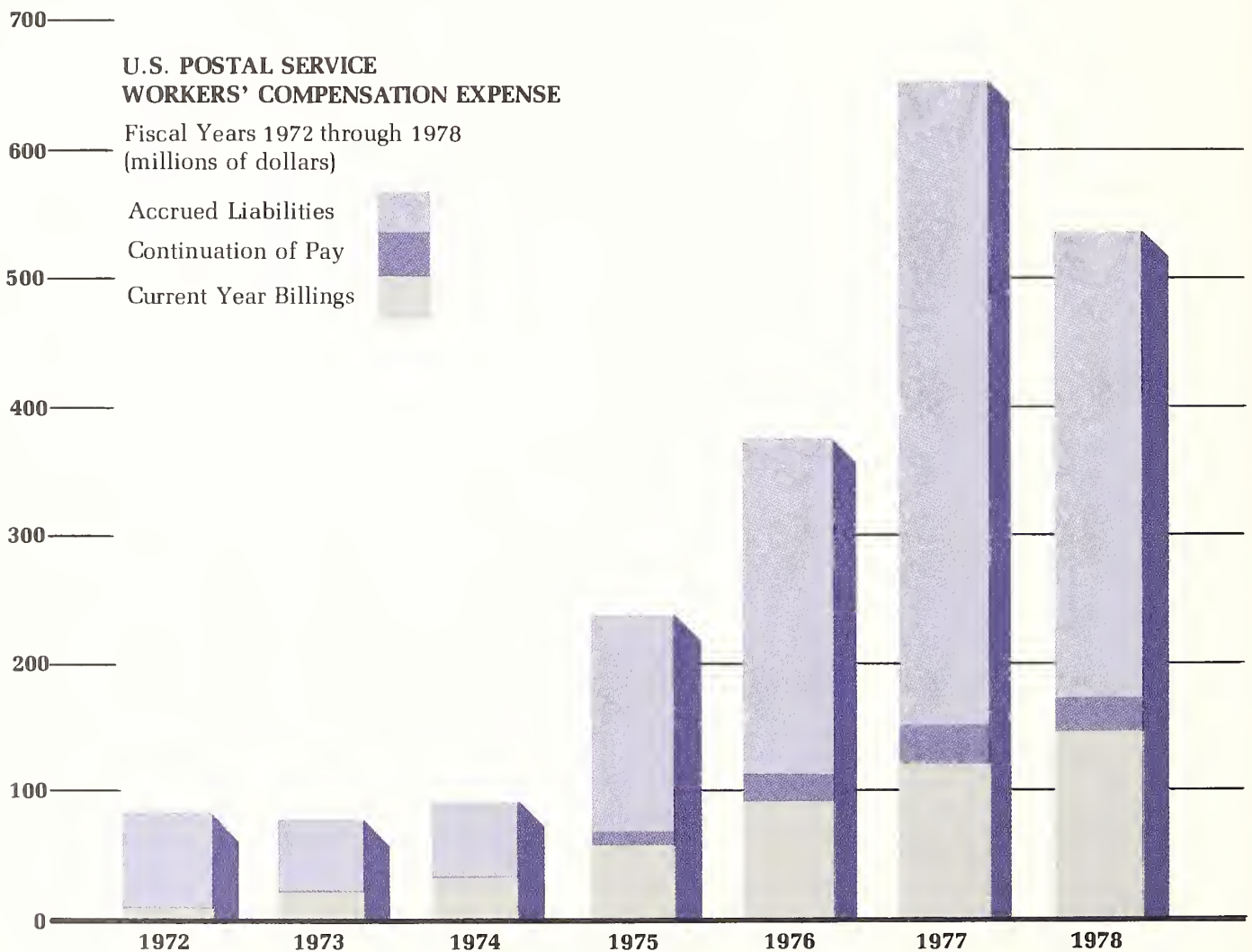
The Governors directed therefore that the Postal Service review the parcel post rate structure and develop a new mail classification proposal. This proposal was developed and submitted to the Rate Commission in September. It involves a new structure for bulk parcel post that would have the effect of lowering these rates. The Postal Service concurrently proposed a new subclass of third-class mail presorted to carrier routes.

Both proposals represent an effort by the Postal Service to pass along rate reductions in areas where more economical handling of the mail can be achieved. This decrease in price

approach is a distinct departure from the trend of recent years.

The bulk parcel post proposal calls for a restructuring of rates in the existing bulk parcel post subclass. For example, a 5 lb. parcel to the fifth zone (1,000 miles) would cost \$1.86 in contrast to the present rate of \$2.14. In order to qualify for the lower rates, customers would be required to deposit 50 or more parcels in containers acceptable to the Postal Service.

The filing also introduces new, uniform rates for parcels staying within the service area of a bulk mail center.



The third-class carrier-route presort proposal calls for a minimum per piece rate of 6.9 cents for qualifying mail—1.5 cents lower than the corresponding per piece rate of 8.4 cents for regular bulk third class. A bulk mailer must deposit at least 2,000 pieces per mailing sorted to carrier routes. There must also be at least 10 pieces per route.

The proposed subclass would be available for pound rate mail as well as minimum per piece rate mail.

The Postal Service expects that the new subclass could generate an additional two billion pieces of mail per year after full implementation.

These actions in holding down and improving rates are essential to the future of the Postal Service.

Largely because of stable rates for 2½ years, mail volume reached a record 96.9 billion pieces in Fiscal 1978, compared to 92.2 billion pieces in Fiscal 1977. We project that volume for next year will also be up, by an estimated two billion pieces. A continuation of this trend will go a long way toward improving the financial condition of the Postal Service, while maximizing its usefulness to the economy as a whole and contributing to the fight against inflation.

Stable, reasonable rates therefore continue to be a key goal of Postal Service management.

New Services

The Postal Service placed renewed emphasis on a number of existing programs and initiation of new ones during Fiscal 1978.

Express Mail service expanded domestically and internationally. It is now available under Next-Day Service in more than 1,000 U. S. cities, and customers may regularly receive Same-Day Service at 51 airports in 49 cities. Internationally, Express Mail is available to eight countries, and Great Britain may now receive shipments containing merchandise or other dutiable articles in addition to business documents, correspondence and other non-dutiable matter.

We also expanded our involvement in electronic communications.

While electronic mail is really not new to the Postal Service (witness Mailgram, initiated in 1970), the influence of electronic message handling upon our business is increasing. And so, too, is the technical feasibility of employing electronic transmission capabilities to improve the economy and efficiency of mail service. Hence, we have prepared to introduce Electronic Computer Originated Mail (E-COM) service in conjunction with Western Union, and to test International Electronic Message Systems, or Intelpost, for International Electronic Post, with Comsat (Communications Satellite Corp.).

Each of these efforts is directed toward putting the Postal Service in a state of readiness to employ electronic communications in the future, in keeping with the requirement of the Postal Reorganization Act that the Postal Service promote modern and efficient

operations and not refrain from using new equipment or devices which may reduce the cost or improve the quality of postal services. But use of electronic communications raises public policy questions on the role of USPS vis-a-vis the private sector—issues that should be resolved by the elected representatives of the people. I do not believe that major investments or final decisions should be made in this area while the essential public policy guidelines are being resolved. In the meantime, we will continue to prepare ourselves.

RCA completed its two-year study on a domestic Electronic Message Service System (EMSS) during the fiscal year, and the Postal Service is currently moving toward a one-year laboratory demonstration in its Research and Development facility in Rockville, Maryland. If a policy decision is later made to proceed, EMSS could become operational by 1984. Such a system would allow the Postal Service to accept a paper copy message, convert the material into computer

form, transmit it electronically via commercially leased or purchased service to its destination, possibly by satellite, and convert the material back to paper for delivery by a letter carrier—with strong prospects for substantial gains in timeliness and economy as compared with conventional mail.

With E-COM service, to be introduced in 25 post offices, five major customers, each representing a large industry, will send electronic messages to Western Union's communications center in Middletown, Virginia. From there, the messages will be transmitted to the serving post offices. The 25 were selected on the basis of mail processing abilities to service their ZIP Code areas within two postal delivery days, and in most cases in one day, of receipt of the messages.

Upon receipt at computer terminals in the post offices, the messages will be printed and enveloped, processed through the normal mail stream as First-Class Mail and delivered by regular letter carrier.

In Intelpost, the Postal Service will use satellites to send and receive facsimile mail to and from seven foreign countries participating in the test—Argentina, Belgium, West Germany, France, Iran, The Netherlands and the United Kingdom. Two U. S. cities—New York and Washington, D.C.—will transmit and receive.

The one-month demonstration, expected to be conducted in March 1979 and followed by an additional 11-month field test, may be a prelude to wider use of satellites and facsimile for sending and receiving mail.

As in other mail services employing electronic communications, the Postal Service will use its unique and universal delivery capability to deliver the final hard-copy messages.

Streamlining Regulations

During the year, the Postal Service also took a number of steps to protect and improve its traditional delivery service.

We have seen parcel post, for instance, decline steadily and rapidly, to the point where we expect it to reach the dangerously low level of 151 million pieces in Fiscal 1979. As a comparison, the Postal Service handled 792 million pieces in 1962 and 498 million in 1972, the first year after Postal Reorganization, and only 250 million in 1978.

To prevent other classes of mail from having the same fate as parcel post, the Postal Service and some of its major mailers established a joint task force to recommend changes to me by Dec. 31, 1978.

The task force was authorized to analyze postal ways of doing business that have not been examined for decades, with the goal of preserving the volume that drives the postal system and easing needless restrictions on customers.

The task force is made up of seven study teams. It is looking into such things as sack label problems, mail damage, alternate delivery, data processing, presort mail and ZIP Codes, delivery methods, classification and rules, and rates. In its early work, the task force identified a number of postal regulations that could be usefully changed or eliminated, with literally hundreds of other improvements in prospect.

In the face of escalating processing costs, the Postal Service in Fiscal 1978 expanded its two-year-old presort program for First-Class Mail to include pre-canceled 13-cent stamps, later deposit times and pickups under certain circumstances.

In 1977, the first full year for presort First-Class Mail, the volume was 2.2 billion pieces. In 1978, it was 3.3 billion.

Presort has a number of benefits. For some customers, it has meant net savings of up to \$16 per thousand pieces of mail and speedier mail delivery.

For the Postal Service, it saves sorting costs, prevents potential missorts, and cuts down on potential missents, as well as making postal delivery more attractive to customers. For instance, before presort's introduction, a number of utility companies were experimenting with having their employees deliver bills; the presort rate has reduced this potential.

Maintaining Service Levels

While the Postal Service did not emphasize a service improvement program per se in Fiscal 1978, all of our mail-related efforts have the continuing goal of maintaining high levels of service.

It's part of people awareness—concern not only for postal employees, but especially for customers. Toward this end, I have begun an internal effort to improve the courtesy of employees who come in contact with the public.

We see it as part of our public responsibilities to listen more to what our customers have to say and act on what we hear.

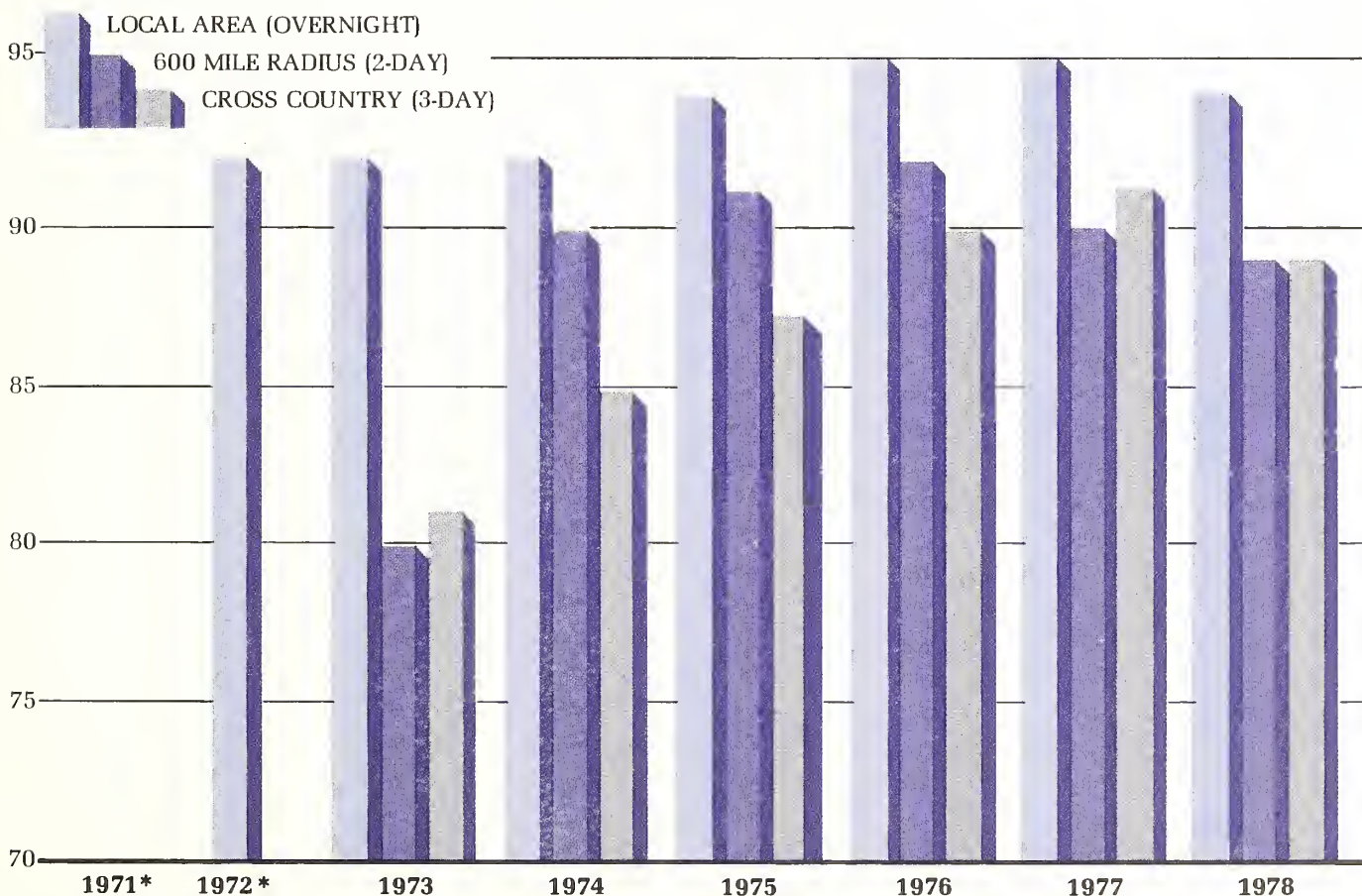
For example, a Postal Service household customer-attitude study, conducted in April 1978, indicated that 74% of the general population feel favorably toward USPS. However, they also rated the Postal Service as just average on having the most up-to-date improvement in services and products and below average on

having products and services reasonably priced. As noted earlier, this reaffirms the importance of holding prices steady.

A Roper survey on the public's perception of value for service received for various services, taken before the May 1978 postal rate increases, ranked mail service highest. Other services in the study were doctors, life insurance, telephone, hospital care, electricity, automobile insurance, TV repair, local property taxes, home repair, automobile repair, and federal income taxes.

NATIONAL DELIVERY PERFORMANCE

For qualified first-class mail (percent)



* Comparable delivery data in all categories did not exist in these years.

Overall, we achieved over-night delivery of eligible stamped First-Class Mail 94% of the time during the year as compared to 95% in Fiscal 1977. And we met service standards for both two-day and three-day delivery 89% of the time. The figures were 90% and 91%, respectively, in Fiscal 1977. Last winter's severe weather conditions had an adverse effect on service, but analysis shows Postal Quarter III and IV figures up, and we expect this trend to continue.

One program we announced in Fiscal 1978 to reduce errors and hold down costs through the use of automation was adding four new digits to the current ZIP Code.

This expansion will permit the Postal Service to make better use of new equipment, especially optical character readers. These machines will be able to do much of the reading, coding and sorting operations down to carrier route and even city block, thus improving efficiency and reducing our operating costs.

For mailers, it will mean fewer rate increases, fewer changes in their mailing lists and fewer missent pieces.

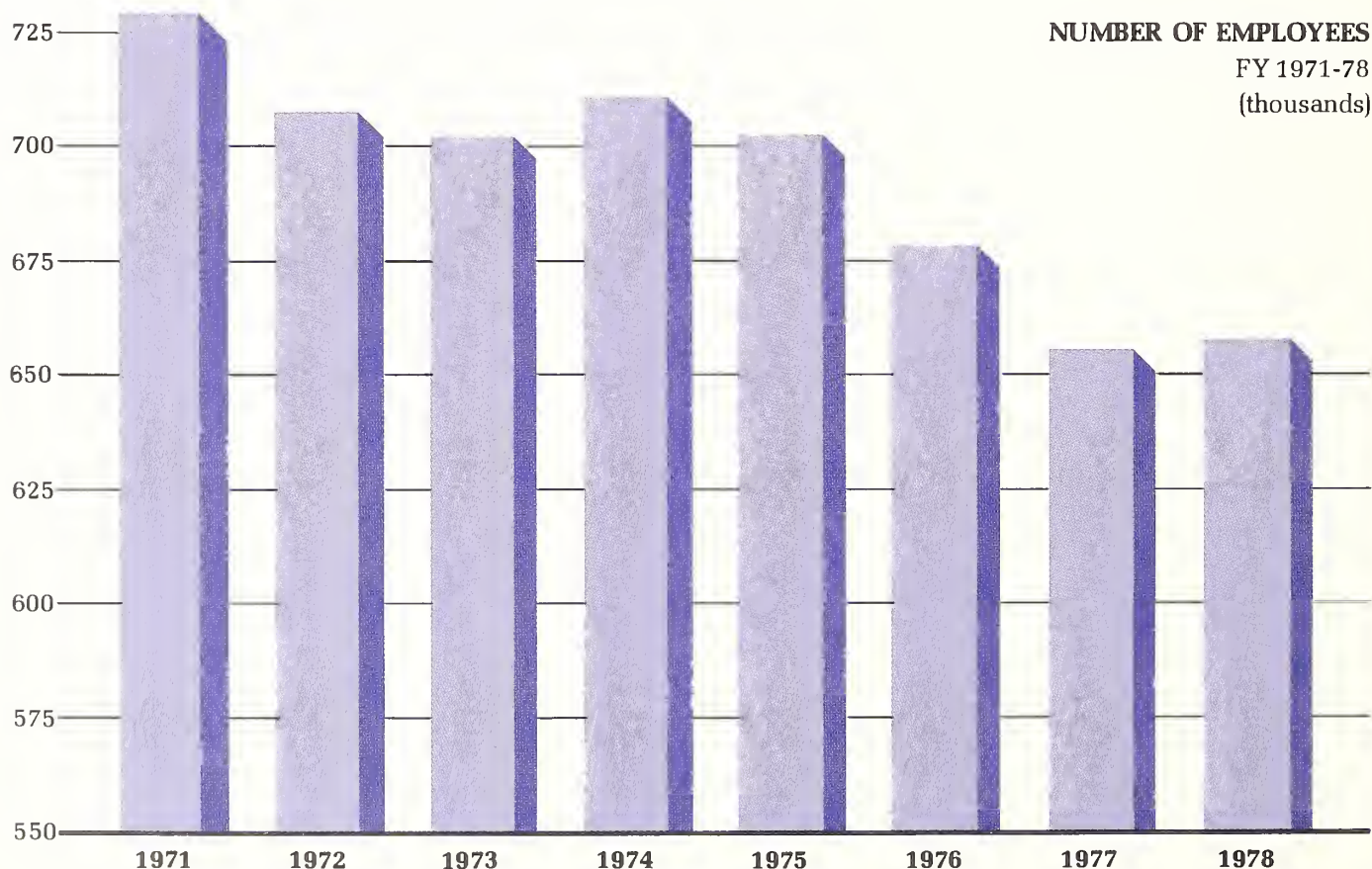
We expect the primary ZIP Code add-on users to be business mailers, customers who generate large volumes of computer-printed addresses and distribute pre-printed reply envelopes.

We will strongly encourage use of the ZIP Code add-on, but we will not require the individual citizen to use it.

Full implementation of the new ZIP Code is expected to take about five years.

In recent years the General Accounting Office has investigated area mail processing. The Congressional investigative agency reported that this centralizing of mail processing within an area—moving mail from non-mechanized to mechanized facilities—has had positive effects.

"Service has not been drastically affected . . . (and) in some cases the massing of mail for mechanized handling improves service in the area," the report states.



Productivity

As noted earlier, Fiscal 1978 volume rose to 96.9 billion pieces. We accomplished this task with only a one-tenth of one percent increase over the number of employees on the rolls in Fiscal 1977.

As a result, our gross productivity again increased—by 6% over 1977, giving the Postal Service a 21.8% improvement over 1971, the last year before Postal Reorganization. The gains were made largely because of such

special programs as presort and increases in third-class mail volume as well as increased mechanization and new facilities. Despite these traditional productivity gains, the cost of personnel compensation and benefits associated with each workyear has increased so much that the beneficial aspects of our increased productivity have been substantially diminished. For example, while pieces per workyear have increased about 22% since 1971, the number of pieces per constant dollar of personnel compensation and benefits has declined about 3%.

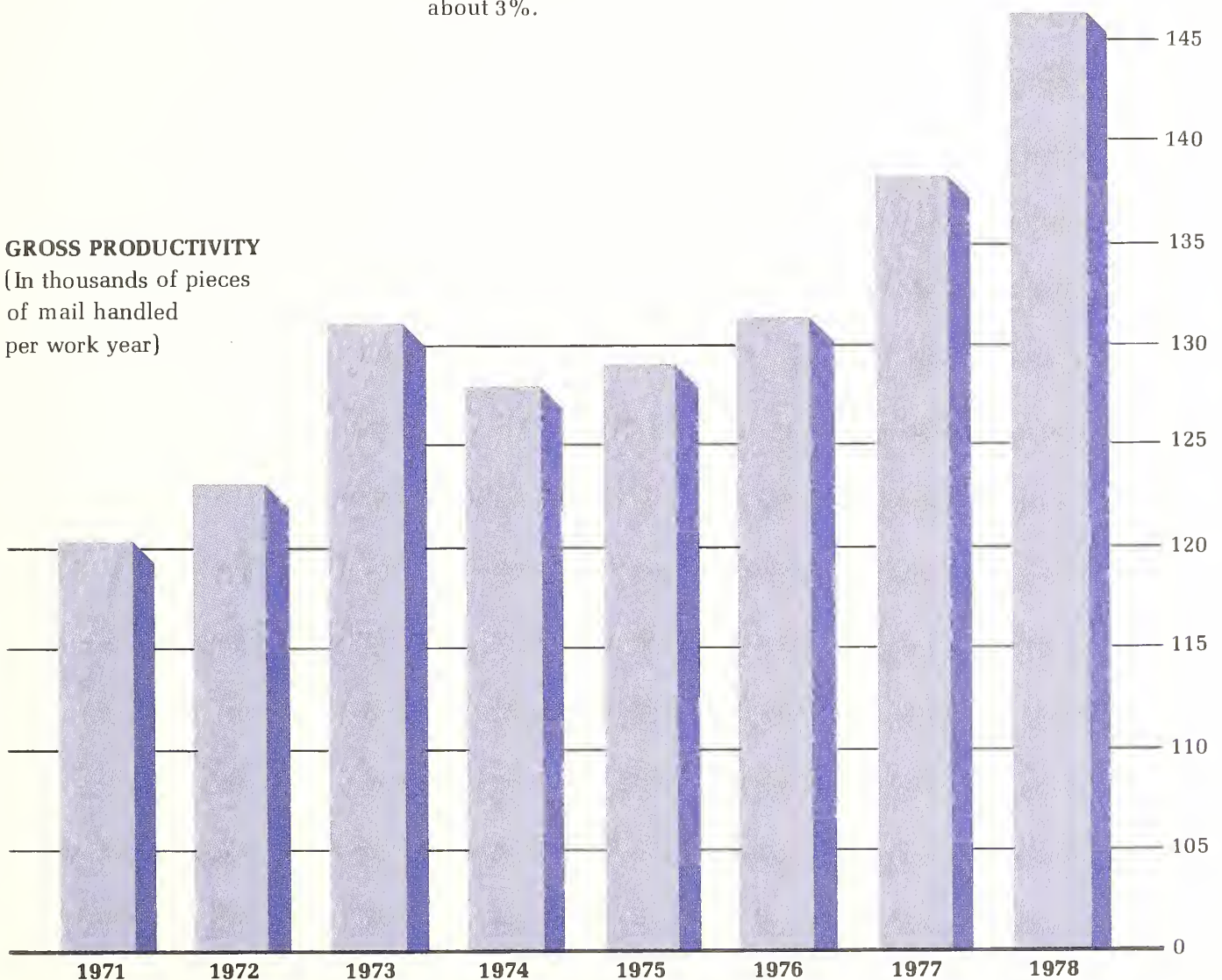
We had other bright spots in our financial picture.

For the second year in succession, we did not borrow money for either operating or capital expenditures. We also lowered our deficit from the originally projected figure of \$1.3 billion to the \$379 million previously mentioned.

Most of the deficit occurred during the first eight accounting periods when total operating expenses were increasing at a rate of 7% and total income was increasing at only 3% over 1977.

GROSS PRODUCTIVITY

(In thousands of pieces of mail handled per work year)



Salaries and benefits alone increased \$443 million. Inflation in other areas such as fuel, utilities and communications took its toll, too.

However, as a result of the rate increase last May 29, we were able to about break even during the remainder of the fiscal year's accounting periods.

We also got better control of workers' compensation expenses. In 1977, these expenses totaled \$656.7 million. In 1978, they decreased to \$536.5 million, \$312 million lower than anticipated.

Reasons for the lesser amount include the Postal Service's increased emphasis on safety and better administration of this huge expense area. Yet, in Fiscal 1979 we expect the cost of workers' compensation to run to a level where it will represent a penny on each piece of First-Class Mail.

Payroll Conversion

The Postal Service also expended a great deal of effort and money in Fiscal 1978 to comply with the provisions of the Fair Labor Standards Act.

To put what we did into perspective, it should be noted that the Postal Service's annual payroll amounts to \$14 billion in salaries and benefits. When we became subject to the Fair Labor Standards Act on May 1, 1974, we had to redesign the entire payroll system to comply with its provisions.

A two-step approach was taken. First, because of the substantial effort required to put a new payroll system into effect and because of related field and data center procedures, we made retroactive FLSA payments starting in June 1976.

Second, we began redesigning the entire payroll system to include such things as collection of time and attendance information on a weekly, rather than on a bi-weekly, basis. The total effort was immense.

Some conversion problems at the data centers inconvenienced some of our employees, but steps were taken to insure all employees received pay on time and to bring the number and severity of adjustments under control.

Looking ahead to Fiscal 1979, we see an improving payroll system with minimal problems.

With the new rate and fee structure in effect throughout all of Fiscal 1979, we expect to be able to live within our income during that year and are, in fact, projecting a surplus of \$180 million. Yet, we are especially wary of the course of inflation. If inflation soars, cost-of-living payments to bargaining-unit employees will rise accordingly, impacting our financial posture significantly.

Since Postal Reorganization, there have been many changes in the Postal Service, and some of them have been painful for our employees and perhaps perplexing for our customers.

Recently, an official of the General Accounting Office, in testimony before the Senate Governmental Affairs Subcommittee on Energy, Nuclear Proliferation, and Federal Services,

said: "... I have looked at a lot of Federal agencies (in the last 16 years), and I think the one thing that struck me about the Postal Service management was the way those people were trying to reduce costs; I mean, if anything, they perhaps at times tended to be a little more ruthless than they should have been in relation to the employees. But they were really dedicated and had a number of programs of varying effectiveness all trying to keep costs down. I would say that there was an atmosphere pervading, and it probably would do a lot of other Federal agencies some good."

In summary, I believe Fiscal 1978 was a good year for the Postal Service and that in 1979 performance can be even better.

A handwritten signature in black ink, appearing to read "W. Bolger", with a stylized, cursive script.

William F. Bolger
Postmaster General
January 1979

FINANCIAL STATEMENTS: FISCAL YEAR 1978

BALANCE SHEETS: UNITED STATES POSTAL SERVICE

Assets

(Dollars in Thousands)

Year Ended September 30,
1978 1977

Current Assets

Cash	\$ 231,368	\$ 312,198
U.S. Government securities, at cost (approximate market)	1,684,591	1,259,413
Accounts receivable:		
U.S. Government	130,240	153,179
Foreign countries	22,569	26,681
Other	41,318	23,514
	<u>194,127</u>	<u>203,374</u>
Less allowances	11,170	9,094
	<u>182,957</u>	<u>194,280</u>
Supplies, advances and prepayments	55,321	51,256
Total Current Assets	2,154,237	1,817,147

Other Assets—Note 4	14,521	6,990
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Property and Equipment—Notes 1 and 4

Land	375,379	338,777
Buildings	2,677,063	2,439,406
Equipment	1,878,666	1,796,443
	<u>4,931,108</u>	<u>4,574,626</u>
Less allowances for depreciation	1,421,455	1,266,912
	<u>3,509,653</u>	<u>3,307,714</u>
Construction in progress—Note 6	415,135	502,157
Leasehold improvements, net of amortization	107,510	107,348
	<u>4,032,298</u>	<u>3,917,219</u>

Deferred Retirement Costs—Note 3	7,178,391	6,550,356
	<u><u>\$13,379,447</u></u>	<u><u>\$12,291,712</u></u>

See notes to financial statements.

Liabilities and Deficiency in Assets

(Dollars in Thousands)

	Year Ended September 30,	
	1978	1977
Current Liabilities		
Outstanding postal money orders	\$ 158,817	\$ 188,324
Compensation and employees' benefits—Note 3	728,390	647,454
Amounts payable to other U.S. Government agencies	172,957	172,239
Other accounts payable and accrued expenses	529,452	390,461
Prepaid permit mail and box rentals	231,481	191,507
Estimated prepaid postage—Note 1	621,000	526,000
Current portion of long-term debt	164,867	69,200
Total Current Liabilities	2,606,964	2,185,185
<hr/>		
Long-Term Debt , less current portion—Note 4	2,239,865	2,398,584
Other Liabilities		
Amounts payable for retirement benefits—Note 3	7,075,568	6,454,823
Employees' accumulated leave—Note 5	501,887	481,654
Workers' compensation claims—Note 1	1,597,000	1,233,000
Other	303,385	126,000
	9,477,840	8,295,477
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Deficiency in Assets		
Capital contribution of the U.S. Government—Notes 1 and 5	2,898,203	2,876,463
Deficit from operations since commencement on July 1, 1971	(3,843,425)	(3,463,997)
	(945,222)	(587,534)
Commitments and Contingencies—Notes 3, 5, 6 and 7		
	\$13,379,447	\$12,291,712

See notes to financial statements.

STATEMENTS OF OPERATIONS AND CHANGES IN DEFICIENCY IN ASSETS

(Dollars in Thousands)

	Year Ended September 30,	
	1978	1977
Operating revenue	\$14,133,056	\$12,997,873
U.S. Government operating appropriations—Note 2	1,721,510	1,712,066
	15,854,566	14,709,939
Operating expenses:		
Compensation and employees' benefits	14,031,254	13,124,065
Other	2,188,365	2,186,104
	16,219,619	15,310,169
	(365,053)	(600,230)
Interest income	176,472	131,739
	(188,581)	(468,491)
Interest expense	190,847	219,358
	Net Loss	(379,428)
	(379,428)	(687,849)
Deficiency in assets of U.S. Government at beginning of year	(587,534)	(428,830)
Contributions (withdrawals) by the U.S. Government:		
To be applied against accumulated operating indebtedness	-0-	500,000
To partially fund employees' accumulated leave at July 1, 1971—Note 5	31,000	31,000
Other	(9,260)	(1,855)
	Deficiency in Assets of the	
	U.S. Government at End of Year	\$ (945,222)
		\$ (587,534)

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Dollars in Thousands)

	Year Ended September 30,	
	1978	1977
Sources of Working Capital		
From operations:		
Net loss	\$ (379,428)	\$ (687,849)
Charges to operations not requiring current outlays of working capital:		
Depreciation and amortization	221,337	206,695
Provision for noncurrent workers' compensation claims	364,000	507,767
Amortization of deferred retirement costs	181,129	165,258
Increase in other claims	177,385	103,475
Increase in employees' accumulated leave	20,233	26,248
Total Sources from Operations	584,656	321,594
Increase in noncurrent amounts payable for retirement benefits	620,745	853,441
Proceeds of long-term debt	6,458	6,602
Capital contributions of U.S. Government	21,740	529,145
Total Sources	1,233,599	1,710,782
Uses of Working Capital		
Additions to deferred retirement costs	809,164	1,038,661
Reduction of long-term debt	165,177	544,512
Additions to property and equipment, net	336,416	419,204
Increase in other assets	7,531	1,682
Total Uses	1,318,288	2,004,059
Decrease in Working Capital	\$ 84,689	\$ 293,277
Changes in Components of Working Capital		
Increase (decrease) in current assets:		
Cash and U.S. Government securities	\$ 344,348	\$ (802,669)
Accounts receivable	(11,323)	18,161
Supplies, advances and prepayments	4,065	6,338
	337,090	(778,170)
Increase (decrease) in current liabilities:		
Outstanding postal money orders	(29,507)	24,297
Compensation and employees' benefits	80,936	(189,315)
Amounts payable to other U.S. Government agencies	718	(13,481)
Other accounts payable and accrued expenses	138,991	136,800
Prepaid permit mail and box rentals	39,974	15,378
Estimated prepaid postage	95,000	66,000
Current portion of long-term debt	95,667	(524,572)
	421,779	(484,893)
Decrease in Working Capital	\$ 84,689	\$ 293,277

See notes to financial statements.

**NOTES TO
FINANCIAL STATEMENTS
UNITED STATES
POSTAL SERVICE**
September 30, 1978

**Note 1—POSTAL
REORGANIZATION AND
ACCOUNTING POLICIES**

The United States Postal Service commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Certain minor equipment items (mailbags, locks, etc.) with a net book value of approximately \$116,000,000 at July 1, 1971, do not lend themselves to normal property control procedures and, accordingly, the Postal Service has not provided for depreciation of this initial carrying amount and has expensed all subsequent acquisitions of such items. All other property and equipment acquisitions, including renewals and replacements when the capacity, operating efficiency, or useful life of the asset is significantly extended, are capitalized at cost. Repairs and maintenance are expensed as incurred.

Depreciation of buildings and equipment is provided on a straight-line basis and is computed on asset balances at the beginning of the year. Depreciation of vehicles and amortization of leasehold improvements is provided on the straight-line basis on balances at the beginning of each accounting period.

Research and development costs, relating primarily to new equipment design amounting to approximately \$21,000,000 in fiscal year 1978 and fiscal 1977, are expensed as incurred.

The Workers' Compensation program for the Postal Service is administered by the Department of Labor. The Postal Service records as an operating expense in the year of injury the discounted present value of the total estimated costs of claims based upon statistical estimates of length of time claims will be paid depending upon severity of injury and other factors. Under the Postal Reorganization Act, all payments made by the Department of Labor for injuries experienced prior to July 1, 1971, remain liabilities of the U.S. Government to be funded by appropriations.

Estimated prepaid postage represents the estimated revenue collected prior to the end of the year for which services will be subsequently rendered.

**Note 2—OPERATING
APPROPRIATIONS**

The Postal Reorganization Act appropriated to the Postal Service all revenue received by it and, additionally, authorized to be appropriated "for public service costs incurred by it in providing a maximum degree of effective and regular postal service nationwide" the following amounts: for each of the fiscal years 1972 through 1979, an amount equal to 10% of the sum appropriated to the former Post Office Department by Congress for its use in fiscal 1971; and for fiscal years 1980 through 1984, the amount is reduced by 1% each year to a level of 5%. After 1984, the Postal Service may reduce the amount authorized to be appropriated if it finds the amounts so determined are no longer required to operate it in accordance with the policies of the Act. Further, the Act authorizes to be appropriated each year a sum determined by the Postal Service to be equal to revenue foregone by it

in providing certain mail services at free or reduced rates.

Operating appropriations received during the fiscal years 1978 and 1977, amounted to \$1,721,510,000 and \$1,712,066,000, respectively including supplemental appropriations of \$223,250,000 and \$307,366,000, respectively to offset the effect of Congress extending the period of phasing rates of certain classes of mail.

On October 10, 1978, Congress appropriated a total of \$1,719,544,000 (received on October 10, 1978) for operations for the fiscal year ending September 30, 1979.

**Note 3—RETIREMENT
PROGRAM**

The Postal Reorganization Act provides that officers and employees of the Postal Service (other than the Governors) shall be covered by the Civil Service Retirement Program and the Postal Service shall withhold from pay and shall pay to the Civil Service Retirement and Disability Fund the amounts specified by such program. The Postal Service contributes 7% of base pay to the Fund.

In addition, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the Civil Service Retirement and Disability Fund which is attributable to any benefits payable from the Fund when the increase results from a Postal Service employee-management agreement which authorizes increases in pay on which benefits are computed. The estimated increase in the unfunded liability as determined by the Civil Service Commission is to be paid by the Postal Service in 30 equal annual installments with interest computed at the rate used in the most recent valuation of the Civil Service Retirement System (currently 5%), with the first payment thereof due at the end of the fiscal year in which an increase in pay becomes effective. The accompanying financial statements reflect the Postal Service's legal obligation to the Civil Service Re-

tirement and Disability Fund as a liability in an amount equal to the present value of the equal annual installments due to the Fund as determined by the Civil Service Commission (amounts due within one year are classified as a current liability) with offsetting charges to deferred retirement costs applicable to operations of future years. Amounts charged to operating expense each year are approximately equivalent to the amounts funded. Aggregate retirement costs for fiscal years 1978 and 1977 were

\$1,178,277,000 and \$1,076,088,000 respectively.

As part of the most recent employee-management agreement effective July 21, 1978, increases in base compensation are expected to result in additional annual payments to the Civil Service Retirement and Disability Fund to fund the increase in the unfunded liability. Such increased annual payments beginning September 30, 1979 are expected to amount to approximately \$140,000,000.

The 6 $\frac{7}{8}$ % Postal Service Bonds, Series A, were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations, and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service and all sinking and improvement funds established pursuant to the Indenture. On July 31 of each year commencing in 1978, the Postal Service is required to deposit in a sinking and improvement fund the sum of \$10,000,000 either in cash or reacquired Series A Bonds. The Trust Indenture further provides, however, that, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or improvements to properties of the Postal Service. During 1978 the Postal Service applied \$4,039,000 to the construction of a mail facility. The balance of the sinking fund (\$5,961,000) is classified with other assets in the accompanying balance sheet. The bonds are redeemable prior to maturity, at the option of the Postal Service, on or after February 1, 1982, at the principal amount plus accrued interest.

Note 4—LONG-TERM DEBT

The Postal Reorganization Act authorizes the Postal Service to issue and sell obligations not to exceed \$10,000,000,000 outstanding at any one time. The net increase outstanding in any one year shall not exceed \$1,500,000,000 for capital improvements and \$500,000,000 for

operating expenses. Such obligations shall not be obligations of the U.S. Government unless the Secretary of the Treasury, upon request of the Postal Service, determines that it would be in the public interest to pledge the full faith and credit of the Government of the United States.

Long-term debt consists of the following:

	September 30	
	1978	1977
6 $\frac{7}{8}$ % Postal Service Bonds, Series A, due February 1, 1997	\$ 250,000,000	\$ 250,000,000
Notes payable to Federal Financing Bank:		
7.80% payable \$95,000,000 on May 30, 1979 and balance due 1980	295,000,000	295,000,000
6.85% payable \$25,000,000 on May 30, 1980 and May 30, 1981	50,000,000	50,000,000
7.78% payable \$140,000,000 on May 30, 1980 and May 30, 1981	280,000,000	280,000,000
8.20% payable \$20,000,000 each May 30 with balance due May 30, 1985 .	440,000,000	460,000,000
8.075% payable \$32,000,000 each year to May 30, 2000	704,000,000	736,000,000
7.80% payable \$15,000,000 each year to May 30, 2001	345,000,000	360,000,000
Mortgage notes payable monthly including interest of 4% to 9 $\frac{1}{4}$ % maturing from 1978 through 2004 secured by land and buildings with a carrying amount of approximately \$64,000,000	40,732,000	36,784,000
	<u>2,404,732,000</u>	<u>2,467,784,000</u>
	<u>164,867,000</u>	<u>69,200,000</u>
	<u>\$2,239,865,000</u>	<u>\$2,398,584,000</u>

Note 5—ACCUMULATED LEAVE

Employees are permitted to accumulate certain unused annual leave which is payable when taken, upon severance of employment, or retirement. The former Post Office Department consistently accrued such accumulated annual leave and, at July 1, 1971, its balance was recorded on the books of the Postal Service. In the opinion of General Counsel, the basic rule on the transferability of liabilities set forth in the Postal Reorganization Act applies to accrued annual leave earned but not taken at July 1, 1971, and, accordingly, the U.S. Government is primarily liable on the obligation. The Act does provide, however, that "sick and annual leave, and compensatory time of officers and employees of the

Postal Service, whether accrued prior to or after commencement of operations of the Postal Service, shall be obligations of the Postal Service under the provisions of this chapter." In view of the latter language, the General Counsel believes that the Postal Service can appropriately be viewed as being secondarily liable for the accrued annual leave and could be held to make payment thereof if Congress fails to appropriate funds therefore. At September 30, 1978, and 1977, the

Postal Service has recorded as a receivable the \$31,000,000 of appropriated funds to cover one-twelfth of the annual leave liability carried forward at July 1, 1971. It is expected that similar annual appropriations will be requested and received until the U.S. Government's primary responsibility for this liability is liquidated.

Employees are permitted to accumulate unused sick leave but such amounts are not vested; therefore, sick leave is expensed when paid.

Note 6—COMMITMENTS

At September 30, 1978, the estimated cost to complete approved Postal Service capital projects was

approximately \$293,000,000.

Total rental expense for the years ended September 30, 1978, and 1977, is summarized as follows:

	1978	1977
Noncancelable real estate leases, including related taxes (1978 \$34,956,000; 1977 \$34,935,000)	\$228,770,000	\$227,213,000
Facilities leased from GSA subject to 30-day notice of cancellation	27,280,000	25,262,000
Equipment and other short-term rentals ..	20,833,000	25,493,000
TOTAL	\$276,883,000	\$277,968,000

At September 30, 1978, the future minimum rentals for all noncancelable leases approximated the following table to the right. ➔

Most of these leases contain renewal options for periods ranging from 10 to 40 years. Certain noncancelable real estate leases have options to purchase the facilities at prices specified in the leases.

Leases meeting the requirements for capitalization under a Statement of the Financial Accounting Standards Board were not material to the

Year	Amount
1979	\$ 179,097,000
1980	163,694,000
1981	141,960,000
1982	121,750,000
1983	102,588,000
Thereafter	654,194,000
	<u>\$1,363,283,000</u>

financial position and the results of operations of the Postal Service.

Note 7—CONTINGENT LIABILITIES

An amendment to the Fair Labor Standards Act which was enacted on May 1, 1974, caused the Postal Service to have an obligation for additional compensation since that date. This additional compensation relates to the payroll practices of

the Postal Service in relation to the Act. Although a portion of the payments due since May 1, 1974 has been paid, in order to achieve full compliance the Postal Service payroll system has been redesigned to provide the necessary capability for satisfying the Act's requirements. This redesign was completed in May 1978. Two series of lawsuits

were filed by over 80,000 employees seeking back pay under the Act. During 1978 a settlement agreement was entered into in each series of cases which, when fully implemented, will resolve all the issues presented. One agreement provides for the payment of approximately \$60,000,000 for previously uncompensated overtime. The second agreement provides for a method for resolving issues related to compensation for certain training, study, and travel not previously included in compensatory time. In addition, during the year the Secretary of Labor filed suit on behalf of all other Postal employees not exempt from the provisions of the Fair Labor Standards Act alleging violations of the Act similar to those presented in the prior suits. The total amount of liability under the suits and agreements will depend, in part, on administrative or judicial determinations of the types of situations and the number of hours for which compensation will be due as well as the amounts of liquidated damages under the Act.

In proceedings before the Civil Aeronautics Board, U.S. air carriers have sought substantial increases in rates to be paid for domestic and international air transportation of mail. The rates sought cover open rate periods dating from March 28, 1973 and March 8, 1974, respectively, and temporary rates are in effect covering those periods. During fiscal 1977, Initial Decisions in the two cases were reached which, if they become final, would result in rates exceeding the temporary rates. In December 1977, the Board ordered new temporary rates in the domestic case and stated that final rates would be set at no less than the temporary rate levels. In the opinion of General Counsel, it does not appear likely that Postal Service liabilities substantially greater than those that would arise should the Initial Decision become final will be incurred. In addition, the Internal Revenue Service has assessed the Postal Service a transportation tax. Administrative appeal of this item is pending. Adequate provision has

been made in this matter should the appeal prove unsuccessful.

Several equal employment opportunity class action lawsuits are pending against the Postal Service. Although the Postal Service believes it has good defenses in these suits, the final outcome and the ultimate liability, if any, cannot be predicted at this time.

Organizations representing postmasters and postal supervisors have brought litigation to require the Postal Service to pay their members additional compensation on the grounds, among others, that the Postal Service has failed to comply with the statutory mandate that it provide "adequate and reasonable differentials" between pay for postal clerks and carriers, and pay for supervisors and managers. A ruling in plaintiff's favor was rendered effective May 7, 1977, and is currently being appealed. Management believes that adequate provision has been made to cover this potential increase.

In accordance with the Postal Reorganization Act, the Governors of the Postal Service ordered placed into effect on May 29, 1978, new permanent rates as recommended by the Postal Rate Commission. The decision of the Governors has been challenged in the U.S. Court of Appeals for the District of Columbia Circuit. In the opinion of the General Counsel (since the Postal Reorganization Act expressly forbids any refunds of sums paid under permanent rate increases which are subsequently determined to be unlawful) should the outcome of the litigation be unsuccessful, it will not have a material effect on the accompanying financial statements.

In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and suits and claims arising out of postal contracts.

In the opinion of management and the General Counsel, adequate provision has been made for the amounts which may become due under the above suits, claims, and

proceedings and, the likelihood of the aggregate final settlement of the above suits, claims, and proceedings

having a material effect on the accompanying financial statements is remote.

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Governors
United States Postal Service
Washington, DC 20260

We have examined the balance sheets of the United States Postal Service as of September 30, 1978, and 1977, and the related statements of operations and changes in deficiency in assets and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

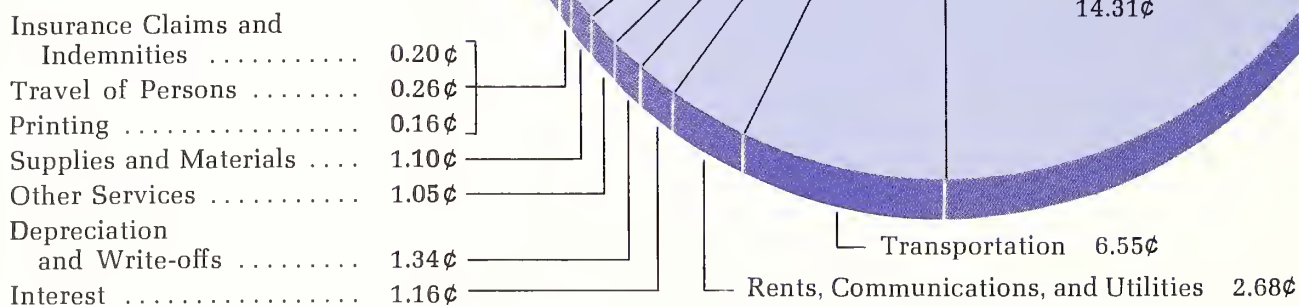
In our opinion, the financial statements referred to above present fairly the financial position of the United States Postal Service at September 30, 1978, and 1977, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Washington, D.C.
November 15, 1978



POSTAL SERVICE DOLLAR—FISCAL YEAR 1978

Where It Goes:	Cents
Personnel Compensation ..	71.19
Personnel Benefits	14.31
Travel of Persons	0.26
Transportation	6.55
Rents, Communications, and Utilities	2.68
Printing	0.16
Other Services	1.05
Supplies and Materials	1.10
Insurance Claims and Indemnities	0.20
Interest on Notes and Bonds	1.16
Sub-Total	98.66
Depreciation and Write-offs	1.34
Total	<u>Dollar</u>



FINANCIAL OPERATIONS—FISCAL YEAR 1978 (in millions)

Total Operating Expenses		<u>\$16,219.6</u>
Source of income:		
Mail revenue		
—postage	\$12,869.2	
—Federal Government payments	626.1	\$13,495.3
Special services		637.8
Government appropriations		
—public service costs	920.0	
—revenue foregone subsidy for free and reduced rate mails	801.5	1,721.5
Other expense, net		(14.4)
Total income		15,840.2
Net Loss (charge to equity)		379.4
Total Income and Net Loss		<u>\$16,219.6</u>

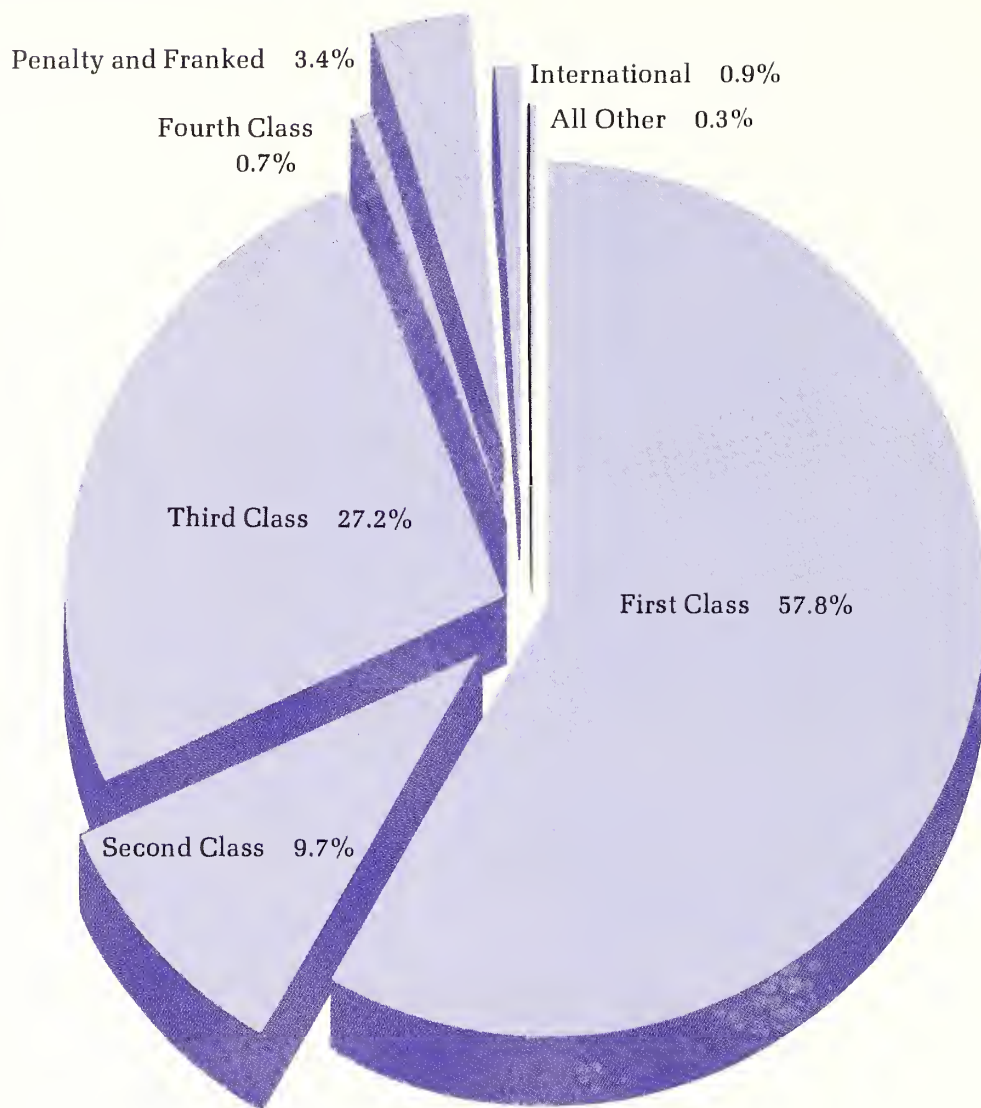
ANALYSIS OF FISCAL YEAR 1978 REVENUE FOREGONE SUBSIDY¹—BY CLASS OF MAIL

Service Category	(in millions)		Source of Income	
	FY 1978 Total Income Identifiable by Class of Mail	Revenues	Revenue Foregone Subsidy ²	Subsidy as a Percent of Total FY Income
First-class mail	\$ 8,574.7	\$ 8,574.7	none	none
Priority mail	497.3	497.3	none	none
Express mail	88.6	88.6	none	none
Mailgram	10.8	10.8	none	none
Second-class mail:				
Within-the-county	\$ 62.1	\$ 18.1	\$ 44.0	70.9%
Outside-the-county:				
Nonprofit publications	161.6	51.7	109.9	68.0
Classroom publications	9.2	3.2	6.0	65.2
Regular-rate publications	519.5	382.8	136.7	26.3
Fees	8.4	8.4	none	none
Transient mail	7.8	7.8	none	none
Total Second-Class Mail	\$ 768.6	\$ 472.0	\$296.6	38.6%
Controlled circulation publications	\$ 79.6	\$ 67.2	\$ 12.4	15.6%
Third-class mail:				
Single-piece rate	\$ 217.1	\$ 217.1	none	none
Bulk-rate—regular	1,578.7	1,578.7	none	none
Bulk-rate—nonprofit	552.7	166.0	\$386.7	70.0%
Fees	24.7	24.7	none	none
Total Third-Class Mail	\$ 2,373.2	\$ 1,986.5	\$386.7	16.3%
Fourth-class mail:				
Parcels (zone rate)	\$ 416.9	\$ 416.9	none	none
Bound printed matter	42.8	42.8	none	none
Special-rate matter	243.4	186.8	\$ 56.6	23.3%
Library materials	59.5	20.4	39.1	65.7
Fees	6.5	6.5	none	none
Total Fourth-Class Mail	\$ 769.1	\$ 673.4	\$ 95.7	12.4%
Federal Government (Franked and Penalty) mail	\$ 626.1	\$ 626.1	none	none
Free mail for the blind and handicapped	10.1	—	\$ 10.1	100.0%
International mail	498.7	498.7	none	none
Totals	\$14,296.8	\$13,495.3	\$801.5	5.6%

¹ Revenue Foregone is that revenue given up or "foregone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss, which is the difference between the reduced rate and the otherwise applicable rate, is given to the Postal Service by an annual appropriation of Congress, as specified in the Postal Reorganization Act of 1970.

² In addition to revenue foregone subsidies that are phased over eight or sixteen years, the Congress authorized an additional, continuing subsidy for certain public-benefit mailings (e.g., by non-profit organizations). This continuing subsidy provides reimbursement for mandated free services and for those postal rates which must by statute be set at a reduced rate which only covers attributable costs and does not help defray the Postal Service's institutional costs. This is a significant additional subsidy in that attributable and reasonably assigned costs roughly cover only 83 percent of the Service's total costs.

COMPOSITION OF MAIL — FISCAL YEAR 1978



Pieces of Mail (in billions)

Mail Classification	Fiscal Year		Percent change
	1978	1977	
First Class	55.98	53.65	4.3
Second Class	9.45	9.36	1.0
Third Class	26.33	24.05	9.5
Fourth Class	0.69	0.76	—9.3
Penalty and Franked	3.29	3.29	—
International	0.92	0.89	3.1
All Other	0.25	0.22	16.8
Total Mail	96.91	92.22	5.1

FINANCIAL HISTORY SUMMARY

	FY Ended Sept. 30 *		Fiscal Year Ended June 30		
	1978	1977	1976	1975	1974
Statement of Operations					
	(in thousands)				
Operating revenues	\$14,133,056	\$12,997,873	\$11,199,211	\$10,019,394	\$9,011,011
Government appropriations**	1,721,510	1,712,066	1,644,503	1,532,934	1,750,445
Total Income	15,854,566	14,709,939	12,843,714	11,552,328	10,761,456
Salaries and benefits	14,031,254	13,124,065	11,985,947	10,805,408	9,641,557
Other expenses	2,188,365	2,186,104	1,936,789	1,773,021	1,656,479
Total Operating Expenses	16,219,619	15,310,169	13,922,736	12,578,429	11,298,036
Operating (Loss)	(365,053)	(600,230)	(1,079,022)	(1,026,101)	(536,580)
Other income (expense), net	(14,375)	(87,619)	(96,780)	37,343	98,221
Net (Loss)	(\$ 379,428)	(\$ 687,849)	(\$ 1,175,802)	(\$ 988,758)	(\$ 438,359)
Balance Sheet					
Assets					
Current assets	\$ 2,154,237	\$ 1,817,147	\$ 1,344,984	\$ 1,306,051	\$1,718,458
Property plant & equip., deferred retire- ment costs & other assets	11,225,210	10,474,565	9,340,443	6,176,018	5,115,850
Total Assets	\$13,379,447	\$12,291,712	\$10,685,427	\$ 7,482,069	\$6,834,308
Liabilities					
Current liabilities	\$ 2,606,964	\$ 2,185,185	\$ 2,098,010	\$ 1,826,635	\$2,168,896
Other liabilities	9,477,840	8,295,477	6,906,168	3,903,514	3,254,618
Long-term debt—Bonds, Notes & Mortgages	2,239,865	2,398,584	2,636,607	1,561,653	264,012
Equity (Deficiency)	(945,222)	(587,534)	(955,358)	190,267	1,146,782
Total Liabilities and Equity (Deficiency) ...	\$13,379,447	\$12,291,712	\$10,685,427	\$ 7,482,069	\$6,834,308
Analysis of Changes in Equity (Deficiency)					
Beginning balance	(\$ 587,534)	(\$ 428,830)	\$ 190,267	\$ 1,146,782	\$1,565,552
Deduct:					
Net loss	379,428	687,849	1,175,802	988,758	438,359
	(966,962)	(1,116,679)	(985,535)	158,024	1,127,193
Add:					
Capital contributions	31,000	531,000	31,000	31,000	21,235
Other	(9,260)	(1,855)	(823)	1,243	(1,646)
Ending balance	(\$ 945,222)	(\$ 587,534)	(\$ 955,358)	\$ 190,267	\$1,146,782

*The U.S. Government changed its fiscal year from a July 1 through June 30 basis to an October 1 through September 30 basis effective October 1, 1976. Figures for the Transition Quarter ending September 30, 1976 can be found in the Annual Report of the Postmaster General Fiscal 1977.

** The United States Postal Service was established July 1, 1971. Prior to 1972, Government appropriations were made to cover entire Post Office Department operations and capital commitments. See Note 2 of Financial Statements for 1978 for basis for appropriations.

OPERATING STATISTICS

CLASSES OF MAIL	Fiscal Year Ended September 30*		Fiscal Year Ended June 30		
	1978	1977	1976	1975	1974
(thousands)					
1st Class:					
Pieces, number	55,981,255	53,654,108	52,107,941	51,372,664	51,594,460
Weight, pounds	1,932,251	1,840,274	1,778,161	1,680,930	1,705,927
Revenue	\$ 8,574,655	\$ 7,831,430	\$ 6,733,967	\$ 5,797,840	\$ 5,018,656
Priority mail:					
Pieces, number	212,758	202,408	191,528	206,477	222,194
Weight, pounds	509,526	499,314	434,691	440,326	451,607
Revenue	\$ 497,336	\$ 467,602	\$ 410,907	\$ 411,259	\$ 394,379
Domestic air:¹					
Pieces, number	—	13,360	351,596	1,109,182	1,334,733
Weight, pounds	—	1,866	25,551	64,708	78,116
Revenue	— \$	5,800 \$	83,469 \$	218,781 \$	230,764 \$
Express mail:²					
Pieces, number	7,955	—	—	—	—
Weight, pounds	30,139	—	—	—	—
Revenue	\$ 88,610	—	—	—	—
Mailgrams:³					
Pieces, number	31,291	—	—	—	—
Revenue	\$ 10,749	—	—	—	—
2nd Class:					
Pieces, number	8,691,432	8,672,530	8,899,147	9,085,314	8,837,663
Weight, pounds	2,984,134	2,911,543	2,749,279	2,791,589	2,932,877
Revenue	\$ 471,994	\$ 362,783	\$ 266,934	\$ 236,105	\$ 212,828
Controlled circulation publications:					
Pieces, number	760,951	690,255	612,331	627,957	620,376
Weight, pounds	299,430	266,682	227,565	232,371	242,196
Revenue	\$ 67,165	\$ 52,689	\$ 40,911	\$ 40,844	\$ 40,021
3rd Class:					
Pieces, number	26,329,813	24,049,663	22,513,993	21,867,253	22,537,096
Weight, pounds	2,725,160	2,473,579	2,333,505	2,282,640	2,365,380
Revenue	\$ 1,986,478	\$ 1,747,519	\$ 1,521,869	\$ 1,348,272	\$ 1,213,520
4th Class:					
Pieces, number	691,141	762,041	758,825	801,227	859,212
Weight, pounds	2,778,093	3,515,733	3,323,132	3,753,819	3,983,032
Revenue	\$ 673,420	\$ 768,671	\$ 679,617	\$ 717,827	\$ 731,670

CLASSES OF MAIL	Fiscal Year Ended September 30 *		Fiscal Year Ended June 30		
	1978	1977	1976	1975	1974
(thousands)					
International surface:					
Pieces, number	426,265	386,879	349,964	345,630	346,770
Weight, pounds	165,592	173,468	166,222	154,764	190,647
Revenue	\$ 129,578	\$ 121,932	\$ 102,869	\$ 85,142	\$ 82,006
International air:					
Pieces, number	486,565	498,177	582,819	586,310	568,870
Weight, pounds	43,274	42,102	46,137	46,368	43,451
Revenue**	\$ 369,151	\$ 370,642	\$ 344,456	\$ 304,466	\$ 260,854
Penalty:					
Pieces, number	2,823,874	2,962,047	2,959,453	2,927,664	2,843,705
Weight, pounds	497,714	564,984	617,003	527,281	607,500
Revenue	\$ 579,065	\$ 566,755	\$ 525,193	\$ 449,531	\$ 440,013
Franked:					
Pieces, number	447,925	307,030	421,426	317,368	315,239
Weight, pounds	14,344	12,067	14,767	12,649	11,794
Revenue	\$ 47,053	\$ 44,473	\$ 51,826	\$ 34,523	\$ 30,793
Free for the blind:					
Pieces, number	21,929	25,414	18,880	18,933	17,790
Weight, pounds	32,884	42,226	34,106	37,579	33,094
TOTALS:					
Pieces, number	96,913,154	92,223,912	89,767,903	89,265,979	90,098,108
Weight, pounds	12,012,541	12,343,838	11,750,119	12,025,024	12,645,621
Revenue	\$13,495,254	\$12,340,296	\$10,762,018	\$ 9,644,590	\$ 8,655,504

*The U.S. Government changed its fiscal year from a July 1 through June 30 basis to an October 1 through September 30 basis effective October 1, 1976. Figures for the Transition Quarter ending September 30, 1976 can be found in the Annual Report of the Postmaster General Fiscal 1977.

**Includes transit special handling and miscellaneous revenue.

¹Domestic air mail service discontinued on May 1, 1977.

²Express mail established as a class of mail on October 9, 1977.

³Mailgram revenue included in other revenue for prior years.

SPECIAL SERVICES	FY Ended Sept. 30*		Fiscal Year Ended June 30		
	1978	1977	1976	1975	1974
(thousands)					
Registry:					
Number of articles (paid and free) .	55,370	59,376	73,349	64,246	66,347
Revenue	\$ 123,295	\$ 110,585	\$ 73,350	\$ 71,230	\$ 72,126
Certified:					
Number of pieces	82,060	81,439	79,031	73,789	71,090
Revenue	\$ 80,186	\$ 67,648	\$ 35,588	\$ 32,919	\$ 31,168
Insurance:					
Number of articles	73,330	85,599	89,575	98,047	95,920
Revenue	\$ 57,303	\$ 55,877	\$ 30,185	\$ 31,114	\$ 29,838
Collection-on-delivery:					
Number of articles	15,405	16,496	15,766	16,291	17,167
Revenue	\$ 19,519	\$ 19,500	\$ 14,124	\$ 13,779	\$ 14,200
Special delivery:					
Number of articles	45,326	54,243	69,187	75,308	81,945
Revenue	\$ 70,227	\$ 72,427	\$ 47,111	\$ 48,722	\$ 52,728
Money Orders:					
Number issued	123,616	136,701	177,743	174,167	164,491
Revenue fees	\$ 88,864	\$ 104,757	\$ 62,970	\$ 53,370	\$ 51,655
Others:					
Box rents revenue	\$ 123,605	\$ 109,030	\$ 103,339	\$ 66,540	\$ 63,134
Stamped envelope revenue	\$ 12,976	\$ 13,165	\$ 11,515	\$ 14,618	\$ 17,312
Other revenue, Net	\$ 61,827	\$ 104,588	\$ 59,011	\$ 42,512	\$ 23,346
Totals:					
Special services revenue	\$ 637,802	\$ 657,577	\$ 437,193	\$ 374,804	\$ 355,507
Mail revenue	\$13,495,254	\$12,340,296	\$10,762,018	\$ 9,644,590	\$8,655,504
Operating revenue	\$14,133,056	\$12,997,873	\$11,199,211	\$10,019,394	\$9,011,011

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EMPLOYEES	FY Ended Sept. 30 *		Fiscal Year Ended June 30		
	1978	1977	1976	1975	1974
Employee Groups					
Headquarters employees	2,719	2,655	2,808	2,988	2,931
Field regular employees:					
Regional and other field units	5,204	5,066	4,877	5,402	5,386
Inspection Service	5,346	5,289	5,451	5,610	5,461
Postmasters	28,367	29,097	29,273	30,050	30,288
Post Office supervisors and technical personnel ..	36,579	36,239	38,541	38,823	38,172
Post Office clerks and mail handlers	226,198	227,929	235,220	243,237	245,984
City delivery carriers and vehicle drivers	156,946	156,920	160,681	167,041	171,517
Rural delivery carriers	30,630	31,226	30,949	30,828	30,674
Special delivery messengers	2,235	2,372	2,666	2,878	2,964
Building and equipment maintenance personnel ..	27,243	27,050	27,297	27,178	25,349
Vehicle maintenance facility personnel	4,648	4,713	4,841	5,029	5,289
Total full-time employees	526,115	528,556	542,604	559,064	564,015
Total other employees	129,452	126,541	136,345	143,193	146,418
Grand total	655,567	655,097	678,949	702,257	710,433

OFFICES, STATIONS AND BRANCHES	FY Ended Sept. 30 *		Fiscal Year Ended June 30		
	1978	1977	1976	1975	1974
Number of post offices	30,518	30,521	30,521	30,754	31,000
Number of branches and stations:					
Classified branches and stations	4,091	4,076	4,025	3,993	3,955
Contract branches and stations	3,438	3,798	3,796	3,808	3,952
Community Post Offices	1,823	1,927	2,050	1,991	2,007
Total	9,352	9,801	9,871	9,792	9,914
Grand Total	39,870	40,322	40,392	40,546	40,914

*The U.S. Government changed its fiscal year from a July 1 through June 30 basis to an October 1 through September 30 basis effective October 1, 1976. Figures for the Transition Quarter ending September 30, 1976 can be found in the Annual Report of the Postmaster General Fiscal 1977.

BOARD OF GOVERNORS

William F. Bolger

Postmaster General

Hung Wai Ching

Realtor

(term expires Dec. 8, 1981)

Charles H. Coddington, Jr.

Rancher and co-owner

Coddington Cattle Research

(term expires Dec. 8, 1978)

James V. P. Conway

Deputy Postmaster General

Robert L. Hardesty

Vice President for

Administration

University of Texas System

(term expires Dec. 8, 1983)

Robert Earl Holding

Vice Chairman of Board of

Governors, U.S. Postal

Service

Chairman of the Board and

President, Sinclair Oil Co.

(term expires Dec. 8, 1982)

Hayes Robertson

Retired Industrialist

(term expires Dec. 8, 1979)

M. A. Wright

Chairman of the Board of

Governors, U.S. Postal

Service

Chairman, President and

Chief Executive Officer

Cameron Iron Works, Inc.

(term expires Dec. 8, 1980)

BOARD COMMITTEES**Audit**

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Charles H. Coddington

Finance and Compensation

Robert L. Hardesty

M. A. Wright

Postal Rates

M. A. Wright, Chairman

Hung Wai Ching

Hayes Robertson

SENIOR POSTAL SERVICE OFFICIALS

William F. Bolger

Postmaster General

James V. P. Conway

Deputy Postmaster General

Louis A. Cox

General Counsel

Francis X. Biglin

Senior Assistant Postmaster

General

Administration Group

E. V. Dorsey

Senior Assistant Postmaster

General

Operations Group

Jim Finch

Senior Assistant Postmaster

General

Finance Group

Carl C. Ulsaker

Senior Assistant Postmaster

General

Employee and Labor Relations Group

Emmett E. Cooper, Jr.

Regional Postmaster General

Eastern Region

John P. Doran

Regional Postmaster General

Central Region

E. V. Dorsey

Acting Regional Postmaster General

Southern Region

James V. Jellison

Regional Postmaster General

Northeast Region

Joseph F. Morris

Regional Postmaster General

Western Region

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